LEAGUE OF NATIONS

International Credits

(THE "TER MEULEN" SCHEME)

Organiser: SIR DRUMMOND DRUMMOND FRASER, K.B.E.
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International Credits.

CONTENTS.

International Credits.

I.—INTRODUCTION.

(a) General situation.

The Great War stopped the working of the complicated machine by which the industry and commerce of the whole world was carried on. During its course most of the old machinery went out of use, and special new methods had to be devised for special purposes.

The war is over, and all the world wants to get back to normal life again. The special methods are no longer required, but what of the old machine? It was easier to stop it than to restart it. In fact, we cannot restart it. Many of the essential parts are missing; others have grown rusty, and are beyond repair. The automatic system of lubrication has broken down. It is only by replacing certain parts, and by makeshift applications of external lubrication, where it is most necessary, that we can reintroduce any sort of movement. Moreover, until we get some sort of movement going, we cannot find out what is really wrong. Only then can we start upon the necessary repairs, and only then can we hope to produce once more the proper interplay of all the parts, and the self-acting lubrication of the whole machine.

(b) Necessity of special measures, although special measures are in themselves undesirable.

All special measures are undesirable in themselves, and naturally arouse the dislike and distrust of practical business men. But the state of the world to-day, two and a half years after the armistice, is forcing practical business men to realise that *some* special measures are necessary. As has been pointed out by many observers, we have on the one hand one-half of the world where goods are piling up in warehouses and cannot be sold, and where the whole financial system is in danger of

breaking down because it cannot stand the strain of financing these ever-growing stocks. As against this, the other half of the world is suffering from the want of all necessary commodities, because it lacks the requisite purchasing power. At the same time, in both the rich half and the poor half, we have increasing unemployment because the general stagnation of business, produced by the conditions described above, is making it impossible to find a market for any goods.

(c) Origin and development of "ter Meulen" Scheme.

International Financial Conference at Brussels (Sept., 1920) recommends t.

Much has been written, and many conferences, formal and informal, have been held to consider what measures can be taken to restore the trade and industry of the world. The most authoritative discussion was the International Financial Conference held in Brussels at the end of September, 1920. One of the main subjects for this Conference was "International Credits." A special Credits Committee was formed and, out of many proposals laid before it, this Committee unanimously recommended the scheme of Mr. ter Meulen (of Messrs. Hope and Company, Amsterdam) for approval by the Conference. This approval was later confirmed by the unanimous vote of the plenary conference.

League of Nations approves.

The Brussels Conference reported to the Council of the League of Nations. The Council appointed a provisional Economic and Financial Committee, consisting not only of officials but of business men, who met for the first time on the 23rd November, 1920, and who recommended in a Report to the Council, dated the 3rd December (E.F. 21), that an organiser should be appointed "to prepare plans for carrying out the scheme." The scheme had in the meantime been redrafted in sixteen clauses, and in this form the full revised text was published in the press at the time. It had been discussed clause by clause by the Finance Section. (For full text see Appendix.) The Council adopted the report of the Provisional Committee on the 14th December, and agreed that, pending the constitution of the International Commission, provided for under clause 1 of the Scheme, the Organiser, when appointed, should be entrusted with the duties enumerated in Article 4, Section (ii) of the Report of the Provisional Committee.

An Organiser to be appointed.

According to this, the Organiser, in consultation with the Finance Section of the provisional Economic and Financial Committee of the League, is to :— Functions of Organiser.

"(*a*) Prepare a constitution for the International Commission.

"(*b*) Work out the details of the scheme in all its bearings, including the preparation, with legal advice where necessary, of forms of bonds, pledges, etc.

"(*c*) Consider how far the scheme can be worked in conjunction with services existing in various countries (*e.g.*, Export Credits Scheme in the United Kingdom, Edge Act in U.S.A.).

"(*d*) Make inquiries as to how far borrowing countries are likely to avail themselves of the scheme; and

"(*e*) Advise on the executive organisation likely to be required, with an estimate of the cost thereof, which, if the scheme eventually becomes effective, should be covered out of the proceeds of reasonable charges for commission."

The scheme, as finally adopted, represents a complete working plan, ready for immediate adoption, as soon as any countries concerned have expressed their willingness to take advantage of it. At the same time there are many details of administration, which have been left for the Organiser to settle, according to the results of the inquiries which he is now about to undertake. Moreover the Finance Section of the Economic and Financial Committee of the League of Nations, in recommending the scheme, emphasized the necessity of preserving its elasticity in case modifications should prove necessary. The Organiser will therefore frame his recommendations as to the administration, and working of the scheme to suit, as far as possible, the practical needs of the governments, and business organisations affected by it. It is accordingly important that these governments and business organisations should make fully known to the Organiser their requirements and recommendations in this respect.

Summary of present situation.

The situation therefore now is, that the Organiser, pending the constitution of the International Commission, will get into touch with the governments, and business organisations interested in the scheme, in order to ascertain their requirements and resources.

(*d*) Spirit in which the Organiser interprets the scheme.

The Organiser (Sir Drummond Drummond Fraser) wishes it to be understood in circulating this pamphlet that it is essentially *as a practical business man* that he intends to carry out his task. He will base his plan on the view that, so far as Government intervention is necessary in order to overcome some of the abnormal obstacles which are hindering business to-day, such intervention should take the form of Governments strengthening the weak links in the chain of *normal commercial transactions*, and should as far as possible avoid the construction of, and reliance on, abnormal types of machinery, which work slowly, and which the ordinary business man does not understand.

At the same time, in so far as the difficulties of the present situation are abnormal, these difficulties do call for a special effort at co-operation among all business men, and the Organiser appeals for their support in the task which he has undertaken.

II.—WHAT IS THE "TER MEULEN" SCHEME?

(*a*) Summary of the "ter Meulen" Scheme.

The "ter Meulen" scheme is an attempt to overcome one of the main obstacles to revival of normal business, namely, the difficulties of traders in certain countries in obtaining short and long term credits to finance necessary imports. It is no more than this; it does not claim to be the panacea for all the troubles that exist to-day.

The essence of this scheme, then, is that trade shall be encouraged by providing a special form of security to reinforce the credit of importers. That this special form of security shall take the form of Government bonds to be loaned by each Government to its own nationals. That the intrinsic value of the bonds should be fixed in such a manner as to inspire confidence in the lenders, by the fact that bonds can only be issued for an amount justified by the gold value of the underlying security, which value must be checked by an international commission of experts selected by, and receiving authority from, the League of Nations. Further, that these bonds should be made attractive to lenders by the fact that bonds

issued to secure any particular credit should be made out in whatever currency the lender may require (usually, of course, this would be the currency of the lender's own country).

It proceeds on the following assumptions :—

(*a*) That credits for both short and long periods with the minimum risk to the lender are universally desired.

(*b*) That every State, however difficult its present financial position, possesses certain revenue-producing assets to which a gold value can be assigned, and on the security of which a bond issue can be made.

(*c*) That if the gold value were assessed, and the service of the bonds watched, by an independent expert committee, acting as trustees for the bond holders, the bonds would be recognised as valuable securities, and traders in any country would be prepared to grant credits to a trader in the bond-issuing country, if he could put up these bonds as collateral security.

(*d*) That without such collateral securities the necessary credits will not be given.

The scheme as finally approved by the Council of the League of Nations is set out in the Appendix.

(*b*) Full text of scheme as approved by the League of Nations (see Appendix).

III.—HOW THE SCHEME IN PRACTICAL OPERATION WILL AFFECT THE POSITION OF THE VARIOUS PARTIES.

Practical working of the scheme.

The scheme as drafted is clearly worded, and indicates the conditions on all points which are likely to arise, but its provisions will be more clearly understood by examining in practical illustrations how it will work out for each of the interested parties. It must at the same time be emphasized again, that the Organiser is willing to consider suggestions from those who will be interested in the scheme, as regards matters of administration, etc. ; so that its application in each case, may fit in with the practical needs of the governments, and business organisations, which will be working under it.

(*a*) How the scheme affects the Importer and Exporter.

(*a*) How will the Scheme affect the Importer and Exporter?

(1) It does not interfere with their ordinary business relations.

It will, in fact, make no alteration in the way in which they arrange their business. The exporter must still satisfy himself, as he does at present, about the standing and credit of his customer. He must still fix all the terms to suit himself. The scheme merely provides means by which the importer may improve his facilities for obtaining credits, by putting at his disposal valuable bonds, which he may pledge as collateral security.

An importer in a borrowing country wishes to purchase goods from an exporter in a lending country and they fix all the necessary terms together. *The purchase money is made payable in whatever currency the exporter requires,* and *the bonds to be used as collateral will be issued by the borrower's Government in the same currency.** The rate of interest on the credit, the period for which the credit is given, and all other conditions, will be fixed between the exporter and importer. It is in no way necessary that the rate of interest on, or the date of maturity for, the bonds which are put up as collateral, should coincide with the rate of interest and maturity of the credit which the exporter gives to the importer.

(2) The bonds are only brought in as collateral security for a transaction, all the details of which the importer and exporter have arranged together.

The importer then approaches his Government, and borrows from it, for the period of the credit, the bonds which he needs as collateral. Each borrowing Government must arrange the conditions under which it will grant this loan of bonds to its own nationals, and all details on this matter will be settled between them. Before, however, the whole transaction is completed, the approval of the International Commission, to be appointed by the League of Nations, must be obtained. This is the only point in the process which may involve delay through the observance of the necessary formalities, as the International Commission must satisfy itself that the transaction is one covering the importation of "*necessary*" *commodities.* In practice, however, it is hoped that no delay will be involved, as definite principles will be established as to what commodities may be imported. All that will be necessary will be for the Commission to see that the total amount of the bonds, authorised for issue, is not exceeded.

(3) The approval of the International Commission.

* Usually, of course, this will be the currency of the creditor's own country, but not necessarily so. A European banking house might, for example, in special cases open "dollar" credits for the import of American cotton.

(*b*) How the Exporter will deal with the Collateral Security.

(*b*) How the Exporter will deal with the collateral security.

(1) *If the borrower meets all his liabilities as they mature.*—If the importer fulfils all the conditions and regularly meets all payments due from him during the currency of the credit, the exporter will not collect for his own account the coupons falling due for payment, but will detach and return such coupons at their due date to the importer, who in his turn will pass them to his Government. Further, if the importer repays all sums due from him for principal and interest at maturity, the exporter will return the pledged bonds to the importer for transmission to his Government. Bonds so returned will be cancelled, and may be replaced by other bonds, either in the same or different currency, up to an equivalent amount.

(1) If the borrower meets all his liabilities as they mature.

(2) *If the credit is extended by agreement between the parties.*—If the importer is unable to meet his obligations at maturity, it will of course be open to the importer and exporter to arrange together for an extension of the credit, subject of course to the importer being able to obtain permission from his Government, with the approval of the International Commission, for the extension of the loan of bonds to himself.

(2) If the credit is extended by agreement between the parties.

(3) *If there is a default.*—If, however, the importer fails to meet his obligations, and the exporter has not agreed with him for an extension, then the exporter is entitled to seize the collateral security, and use it for the satisfaction of his claim. He may therefore either (*a*) hold it as an investment, or (*b*) sell it, and pay himself out of the proceeds of sale. If he holds it as an investment, he then becomes entitled to cash the coupons of the bonds when they fall due, and to repayment of the principal when the bonds mature. If he wishes to sell the bonds, it is proposed to introduce a provision that he must first offer them to the issuing Government, so that it may have an opportunity of buying them in. If, after receiving such an offer, the Government does not purchase the bonds, for the amount of the debt from the importer to the exporter, the exporter will be free to sell the bonds. Any balance realised from the sale, after he has satisfied his own claims, will be held by the exporter at the disposal of the Government of the importer. If, however, the bonds do not

(3) If there is a default.

realise enough to repay in full the claims of the exporter, he will still have a claim for the balance against the importer (not against the importer's Government).

(c) How the scheme fits in with other business machinery.

(c) How the Scheme fits in with other Business Machinery.

(1) *Normal commercial credits (generally short-term credits).*—For the sake of simplicity in the preceding paragraphs the "importer" and the "exporter" have alone been mentioned. In practice, however, as is well known, other parties may be concerned. There are, it is true, many cases when the exporter does himself give a credit direct to the foreign importer, and in such cases the exporter may finance the transaction, either out of his own working capital, or by getting a credit in the form of an overdraft or otherwise from his bankers. In the latter case it is to be presumed that the bankers would be more ready to grant facilities if the exporter could deposit ter Meulen bonds as collateral.

Frequently, however, the transaction would be arranged differently, so that other parties besides the "importer" and the "exporter" would be concerned. For instance, a manufacturer of cotton goods in Poland may wish to import cotton from a merchant in Liverpool. The Polish manufacturer and the Liverpool merchant arrange together the terms so far as concerns prices and quality of cotton. But the Liverpool merchant may be unwilling to finance the transaction himself, or to run the risk himself of giving the credit to the Polish buyer. He may, as is often done, arrange with a bank or accepting house in London to draw on them for the amount of the purchase price, in which case the London bank or accepting house would accept for account of their Polish client.* The London bank, or accepting-house, would then be the party giving the credit to the Polish importer, and it would be against this credit that the ter Meulen bonds would be put up as collateral security. In such a case the London firm would be in the position described in the preceding paragraph for the "*exporter*."

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* It is, of course, possible that, in cases of the kind quoted in this and the next paragraph, the bank, which finances the transaction, might make it a condition that the merchant, who supplies the cotton, should take responsibility for a percentage, or even the whole, of the risk of the credit to the Polish client. This, however, would be an arrangement between the bank and the merchant, and would not in any way affect the method of handling the transaction as described above.

Or again, the Polish manufacturer might not be sufficiently known to any firm in London to obtain the credit from them in this way, and he might have to apply to a bank in his own country to arrange for the credit in their name.

In that case the London firm would give the credit, not direct to the Polish manufacturer, but to the Polish bank, who would then accept the responsibility for the Polish manufacturer. In such case the London firm would fill the *rôle* of the " exporter," and the Polish bank would be the " importer." The London firm would then look to the Polish bank to put up the ter Meulen bonds as collateral security. The arrangement made as between the Polish bank, the Polish manufacturer and the Polish Government, would be for them to settle between themselves, and need not concern us here.

It must be emphasised here that it is most desirable that these credits, even when secured by ter Meulen bonds, should still be worked through the normal channels, and that the existence of the bonds should not lead to less careful methods of business.*

(2) Special long-term credits.

(2) *Special long-term credits.*—In the instances quoted in the preceding paragraph, the case was taken of a normal short-term credit, and the desirability of working through the normal machinery for such credits was emphasised. Under present circumstances, however, in many cases normal short-term credits will not be sufficient, and credits for a longer period will have to be given. It is in such cases that the ter Meulen bond scheme should be of exceptional value. For example, an oil-producing company may wish to increase its refinery capacity, to build a new pipe line, or to provide more tank cars. A foreign finance company may be willing to give credit for this purpose, but, in order to provide the funds, may itself have to make an issue of debentures, or short-term notes. The ter Meulen bonds issued by

* It may be argued that, as a result of the introduction of the ter Meulen bonds, exporters will be likely to exercise less discrimination in selecting clients to whom they will give credits, as they will look to the security given by the possession of the bonds rather than to the personal reliability of their client. The best safeguard against this is that the accustomed channels of business should as far as possible be followed ; *i.e.*, that merchants who have not been in the habit of dealing direct with buyers in foreign countries, but rather of working through the medium of banks, accepting houses, etc., should not depart from this custom. The discrimination exercised by those firms that have the accumulated experience and knowledge necessary to assess the credit of importers in other countries, is a valuable factor which should not be omitted. The ter Meulen scheme cannot work satisfactorily either to the " lending " or the " borrowing " countries if credits are given recklessly, so that the importers in a large proportion of cases fail to fulfil their obligations.

the importer's Government would form a very desirable collateral security for such notes. There will be many other cases where credits are required, not for ordinary commercial transactions giving a quick return, such as the financing of supplies of cotton to cotton manufacturers, but rather for purposes of capital expenditure where the borrower must be given some opportunity of getting the benefit of his outlay, before he can start repaying his credits. In such cases the ter Meulen bonds will prove especially useful.

(3) Export credit schemes.

(3) *Export credit schemes.*—Special export credit schemes have now been introduced by the British and French Governments, with the object of assisting their own manufacturers to give credits to countries where political and currency conditions make business difficult. The general basis of such schemes is that if the foreign importers can put up satisfactory collateral securities, the British and French Governments will guarantee their manufacturers against a substantial proportion (80 to 85 per cent.) of the risk. It has been recognised by the British Government that ter Meulen bonds will be regarded as satisfactory security, and it is to be expected that as soon as the ter Meulen scheme is in proper operation, these bonds will become the recognised and established form of security for credits given under Government export credit schemes.

(4) Other special kinds of business.

(4) As a result of the special difficulties which exist to-day a good deal of business is being done under the method of "*finishing credits.*"

Further, for this and other purposes, special trustee companies (*Treuhand gesellschaften*) have been formed in some countries to watch the interests of creditors.

Again, the business of *credit insurance* is being developed to protect creditors against risks of default.

The issue of ter Meulen bonds would not render these methods useless, but would possibly supplement them, and facilitate their operation.

IV.—OTHER POINTS.

(*a*) A "borrowing" country may also be on other occasions a "lending" country.

(*a*) *A "borrowing" country may also be on other occasions a "lending" country.*—It must be emphasised that although the expression "borrowing countries" is used here for convenience, *there is no reason why a*

"borrowing country" should not also be a "lending country." This will especially be the case in countries with a large manufacturing industry. The manufacturers in such a country might be anxious to obtain special credits, for which purpose they may give their creditors ter Meulen bonds as collateral security; but at the same time these manufacturers may have themselves to give credits to importers in other countries, to whom they may sell their manufactured goods.

(*b*) *What sort of assets will be pledged?*—It will be essential for the working of the scheme that the assets pledged are assets producing a regular revenue. The most suitable assets would probably be export and import duties. Such duties being payable at the countries' frontiers, and having to be paid in the equivalent of gold, would be most easily collected. But there should also be other suitable securities, such as State railways, Government monopolies, forests, etc. This is one of the main questions into which the Organiser must now inquire in consultation with all countries who may propose to take advantage of the scheme. The situation in this respect will be different in each country.

(*b*) What sort of assets will be pledged?

(*c*) *As regards interest.*—This will be a matter for negotiation with each borrowing country. The rate of interest should be the normal rate which such a country might expect to have to pay on an issue in the open market.

(*c*) What rate of interest will the bonds carry?

(*d*) *How long will the bonds run?*—This again is a point which remains to be settled. Mr. ter Meulen originally contemplated bonds for five or ten years. Certainly the date of maturity must not be too far distant.

(*d*) How long will the bonds run?

V.—GENERAL ADVANTAGES OF THE SCHEME.

One main advantage of Mr. ter Meulen's scheme is its flexibility. It does not place a large amount of money all at once at the disposal of the borrowing country, which amount has to be repaid at fixed periods. This kind of credit is of little use for the transactions which require most to be encouraged. Mr. ter Meulen's scheme, on the other hand, provides a "reservoir" of

(*a*) Its flexibility.

credit which can be drawn on as, and when, required. Credit for varying amounts and for all sorts of purposes will, under this scheme, be available as soon as it is wanted, while, at the moment when the particular transaction is completed, the collateral security is released, and becomes available at once for new business. The result should be that every portion of the outstanding credit will be usefully employed. Moreover, it provides a means equally suitable for supporting short-term or long-term credits. It is to be hoped and expected, however, that the greater part of the credits required will be for comparatively short-term periods, and in that case there would be a " chain " of credits for which collateral would be always available.

(*b*) No interference with normal business methods.

Another great advantage of the scheme is that it interferes in no way with the ordinary machinery of commerce. It only provides additional security for ordinary transactions.

(*c*) Conclusion.

Objections can doubtless be made against the scheme. Some of them have been dealt with above. Others can possibly be provided against by future modifications. At the same time it must be freely admitted that *no* scheme for international credits can possibly be free from all objections. The great advantage of this scheme, however, is that it provides a means for effectively mobilising the whole credit of a country behind each of its individual traders, in such a manner that traders in other countries who might shrink from the risk of dealing with individuals alone, may be expected to freely enter upon business. By the possibility of making a start in this way, they will be enabled to ascertain by practical experience, protected by substantial security, whether they have exaggerated the risks. If this practical experience should prove that sound business is possible, the mere fact of starting transactions under this scheme will in itself improve conditions, and thus diminish the risks for further business. The result ought then to be the initiation of a process of gradually increasing improvement, which will soon bring a return of conditions in which industry and commerce will be possible without any abnormal assistance.

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Appendix.

TEXT OF "TER MEULEN" SCHEME.

I.—In order that nations, which under present circumstances are unable to obtain accommodation on reasonable terms in the open market may be able to command the confidence necessary to attract funds for the financing of their essential imports, an International Commission shall be constituted under the auspices of the League of Nations.

II.—The Commission shall be appointed by the Council of the League of Nations, and shall have discretion to appoint agents and sub-commissions, and to devolve upon them the exercise of its functions.

III.—The Governments of countries desiring to participate shall notify to the Commission what specific assets they are prepared to assign as security for commercial credits to be granted by the nationals of exporting countries.

IV.—The Commission, after examination of these assets, shall determine the gold value of the credits which it would approve against the security of these assets.

V.—The participating Governments shall then be authorised to issue bonds to the gold value approved by the Commission. The bonds shall be in such form, with such date of maturity and rate of interest, as the Commission may decide and shall, in particular, enumerate the assets pledged against the bonds. The denomination of each bond, and the specific currency in which it is to be issued, shall be determined by the participating Government in agreement with the Commission, in accordance with the conditions applicable to the particular transactions in respect of which they are issued.

VI.—The service of these bonds, which will be obligations of the issuing Government, shall be specifically secured out of the revenue of the assigned assets.

VII.—The assigned assets shall be administered by the participating Government or by the International Commission, as a majority of the Council of the League of Nations may determine, on the proposal of the International Commission. Nevertheless, in cases where the administration of the assigned assets is in the hands of the participating Government the International Commission at any time may, and in the event of default shall, require the participating Government to transfer the administration of the assets to itself.

The participating Government shall have the right of

appeal to the Council of the League of Nations against this requirement, and the decision of the Council of the League of Nations on these questions shall be binding.

VIII.—The revenues from the assigned assets shall be applied as follows to the service of the bonds :—

(1) Out of these revenues the Commission shall purchase and hold, or the participating Government shall satisfy the Commission that it has purchased and holds foreign currencies sufficient to provide—

- (*a*) Cover for the coupons falling due in the next year of all bonds at any time outstanding in each of such currencies.
- (*b*) A sinking fund calculated to redeem at maturity 10 per cent. of the bonds outstanding in each of the different countries.
- (*c*) A reserve, in such foreign currency or currencies as the International Commission may determine, for the redemption of any bonds sold in accordance with paragraph 16.

(2) Any surplus remaining after the provision of these services shall be at the free disposal of the participating Government.

IX.—The participating Government will be free either to pledge its own bonds as collateral for credits for approved imports on its own account, or to lend the bonds to its nationals as collateral for credits for approved imports on private account, and for the latter purpose will be free to fix such terms, including the security, if any, to be given, as it may think fit.

These terms shall be communicated to the Commission. The bonds shall not be used for any other purpose than those specified in this clause.

X.—Each bond shall, before issue, be countersigned by the Commission in proof of registration.

XI.—The fundamental purpose of the scheme being to facilitate and expedite the import of such raw materials and primary necessaries as will enable the borrowing countries to re-establish production especially for export, bonds secured on the assigned assets shall not be utilised as collateral for credits for the import of other commodities, provided that, where the Commission is satisfied that the import of such other commodities will assist in securing the above purpose, it shall have the discretion to permit special exceptions to the above rule, subject to such conditions as it may think fit.

XII.—For such borrowing country the Commission will draw up, in consultation with the participating Government, a schedule of approved imports which will be regarded as falling within the definition of raw materials and primary necessaries.

XIII.—Particulars of each transaction must be registered with the Commission which, before countersigning a registered bond, will satisfy itself that the credit is for an approved import and that the period for which it is approved to be granted is a reasonable one.

XIV.—The same conditions as govern the pledge of its bonds as the collateral for credits for imports on private account shall apply in cases where the participating Government pledges its own bonds as collateral for imports on Government account.

XV.—After having received bonds, duly countersigned, the importer will pledge them with the exporter.

XVI.—Pledged bonds shall be dealt with as follows :—

- (*a*) In the absence of any failure by the importer to fulfil his contract with the exporter, the coupons on their due date, and the bonds as they are released, shall be returned to the importer, who shall return them to his Government forthwith.
- (*b*) In the event of the importer not fulfilling the terms of his contract, the exporter (or his assigns) may either hold the bonds until maturity or, if he prefers, he may at any time sell them in accordance with the laws and customs of his country, providing that, before the bonds are sold, a reasonable opportunity shall be given to the issuing Government to repurchase them by paying to the exporter the amount of his claim. The proceeds of such sale shall be applied by the exporter towards covering his claims against the importer. Any surplus not required for this purpose shall be accounted for by the exporter to the participating Government.
- (*c*) Any coupons or bonds returned to the participating Government or purchased by such Government shall be forthwith cancelled in accordance with the regulations to be prescribed by the International Commission. Cancelled bonds may subsequently, with the approval of the Commission, be replaced by other bonds either in the same or in a different currency, in accordance with the conditions governing the original issue of bonds.